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UNCLAS SECTION 01 OF 02 KINSHASA 001473

SIPDIS

SENSITIVE
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TREASURY FOR OWHYCHE-SHAW

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SUBJECT: IMF RES REP VIEWS ON DRC ECONOMIC SITUATION

REF: A. KINSHASA 968

1B. KINSHASA 1465

11. (SBU) Summary. The IMF resident representative to the DRC said that there will be no review of the current Staff Monitored Program (SMP) until the end of 2006, due mainly to the ongoing electoral process, security concerns, and a lack of data. He suspected that DRC government over-budget spending, observed in April of this year, had recurred in the months of June, July, and August. He expressed concern that, in addition to government overspending, uncertainties over the results of elections and security concerns might contribute to continuing macroeconomic instability for the remainder of 2006. He hoped, however, that the SMP, due to conclude by end 2006, could be followed within a few months by a new Poverty Reduction and Growth Facility (PRGF) program, negotiated with the next government. The Poverty Reduction Strategy Paper (PRSP), submitted on July 17, is meanwhile being implemented. End summary.

12. (SBU) Econcouns met with International Monetary Fund (IMF) resident representative Xavier Maret September 12. Maret said that a formal IMF review team would not visit the DRC until late in the year, despite the fact that the IMF Staff-Monitored Program has been in place since April and would normally need to be reviewed on a quarterly basis. Instead, he said, a team from Washington will travel to the DRC in October to meet with GDRC officials on an informal basis. Maret admitted that the security situation in Kinshasa and the ongoing election season were factors that had contributed to the IMF decision not to conduct a full-scale SMP review at this time. He noted also that economic data from September, vital to any SMP review exercise, would not be available anytime soon. (Note: The Ministries of Budget and Finance websites have posted budget and treasury cash-flow information for May 2006, projections for June, and no figures yet for July and August. End note.)

13. (SBU) Maret said that there was reason to believe that GDRC overspending in April (ref A), which contributed to a slight depreciation of the Congolese franc (CF) in early May, was likely the case again for the months of June, July, and August during the buildup to and aftermath of the first round of elections. He emphasized the need for the GDRC to limit government spending to the amount of revenue taken in. He noted that if the assumed GDRC overspending for the months of June, July, and August was on items budgeted for the last quarter of 2006, then the Fund would expect to see under-budget levels of spending during the last quarter of

¶2006. Otherwise, he said, the GDRC would find itself in greater difficulty and that the recent, more serious depreciation of the CF and the associated inflation could be expected to continue. (Note: Maret mentioned that the Congolese Central Bank had just taken measures in an attempt to control the recent spike in depreciation of the Congolese franc (septel). End note.)

¶4. (SBU) Maret attributed recent macroeconomic instability not only to GDRC overspending, but also to the elections and the violence of August 20 - 22. He noted that there was the potential for even more disruption because of the constitutional requirement that any government employee who had been elected to the National Assembly, including some EcoFin ministers and high level parastatal authorities (ref B) would be required to step down. This, he noted, could make it more difficult to maintain control of GDRC finances and make it necessary for the IMF to work with less-experienced individuals in key ministries and parastatals. When asked if the SMP would continue past the end of 2006, whether or not a new government was in place by January, Maret indicated that there might be a limbo period in early 2007 when there would be no SMP, but also not yet a re-negotiated Poverty Reduction and Growth Facility (PRGF) program in place. He said, however, that this did not represent a problem, and that IMF technical assistance to the DRC would be able to continue informally.

¶5. (SBU) Maret expressed hope that a new government could be seated before the end of the year, and that one of the first orders of business would be the formalization and adoption of the 2007 budget. (Note: the transitional government has created a draft 2007 budget, basically flat-lining the 2006 budget. End note.) He noted that the 2007 budget, at least

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initially, would not include outside budget assistance, since a formal IMF program would likely not be in place until late in the first quarter of 2007. He feared that the new government and the IMF would be unable to quickly negotiate the next PRGF, but that once in place, it could be reviewed once before the end of the third quarter of 2007. This, he noted, would be in time to achieve Heavily Indebted Poor Country (HIPC) completion point before significant multilateral debt payments would again come due by the fourth quarter of 2007.

¶6. (SBU) Despite uncertainties over elections and the security situation, Maret said that the Poverty Reduction Strategy Paper (PRSP), officially handed over to the IMF and World Bank on July 17, was moving ahead and could be considered as now being implemented. He explained, though, that a joint IMF/WB commission had reviewed the document recently and that it is now going up the chain of approval at both institutions. Ultimately, he said, it would need to be approved by both the IMF and WB boards before being considered official.

¶7. (SBU) Comment. Maret is rightly concerned about the effects that the current electoral campaign, suspected GDRC overspending during the second quarter of 2006, uncertainties about the timing of the installation of the next government, and growing macroeconomic instability may have on the current IMF Staff Monitored Program and the prospects for negotiating a new PRGF with the next government. Security concerns and a dearth of data for the third quarter of 2006 are perhaps understandable reasons not to conduct an SMP review in October, but having to wait until the end of 2006 or the beginning of 2007 to decide whether the DRC has made any progress towards renegotiating a program with the Fund is also problematic. While the transition government is either not fully engaged or distracted by other events, the DRC's compliance with IMF targets and objectives may get so far off course that the next government could find itself unable to rapidly negotiate a new program with the IMF, thereby turning a difficult budget situation in 2006 into a disastrous

situation in 2007. End comment.
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